



Work Plan

April 1, 2003 to June 30, 2004

Submitted by:

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Implementation of the USAID/Mexico Microenterprise Strategy
Contract No. PCE-I-00-99-00007-00, Task Order No. 804

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LIST OF ACRONYMS

ADMIC	ADMIC Nacional, Asesoría a Microempresas
CAME	Centro de Apoyo al Microempresario
CNBV	National Banking Commission
COLCAMI	Consortio Latinoamericano para Capacitación en Microfinanciamiento
COLEF	El Colegio de la Frontera Norte
COP/MA	Chief of Party/Microfinance Advisor
DCA	Development Credit Authority of USAID
DESJERDINS	Développement International Desjardins
FIMEDER	Fundación Mexicana de Desarrollo Rural
FINCA	Foundation for International Community Assistance
FS IQC	Financial Services Indefinite Quantity Contract
GOM	Government of Mexico
HO	Home Office support from Chemonics International
IR	Intermediate Result
ISA	Institutional Strengthening Advisor
ME	Microenterprise
MFIs	Microfinance Institutions
MLTA	Microenterprise Long-term Technical Advisor
MWG	Mexican Working Group
NGO	Nongovernmental Organization
PD	ProDesarrollo
PMU	Project Management Unit from Chemonics International, Inc.
SC/UCP	Savings Center/Unión de Crédito Progreso
SCL	People's Savings and Credit Law
SO	Strategic Objective
SOW	Scope of Work
SPD	Supervisora ProDesarrollo
STTA	Short-term technical assistance
TA	Technical Assistance
UIA	Universidad Iberoamericana
USAID/M	United States Agency of International Development – Mexico office
USAID/W	United States Agency of International Development – Washington D.C. Office
USG	United States Government

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I. Introduction

This document presents the work plan for years three and four for the provision of technical assistance under the Implementation of USAID/Mexico's Microenterprise Strategy. The work plan covers the period from April 2003 through the end of the project in June 2004. It builds from the 2003 provisional three-month work plan which focused on carrying out a key diagnostic study to identify potential new MFI partners which might be eligible to receive assistance under the project.

The strategy was approved by USAID/Washington in January 2000, adding a new strategic objective to the mission's portfolio: "to strengthen the institutional base for sustainable microenterprise growth by supporting Mexican initiatives." In September 2000, the implementation of the strategy was approved and project start-up began in November 2000. During its second year of activity, the project made significant progress toward achieving the objectives under the results framework. The accomplishments to date have been the result of a collaborative effort among partner microfinance institutions (MFIs), microenterprise (ME) support organizations, the Chemonics team and USAID. Chemonics has provided high-caliber technical assistance and training to partner institutions to assist them in addressing their weaknesses and to create an environment that is conducive to ME development. The project has also helped Mexican support organizations increase their capacity to provide services to MFIs, and has supported institutional strengthening measures for selected partner MFIs with targeted technical assistance.

This work plan was prepared by the Chemonics team with considerable input from all organizations implementing of the strategy, as well as USAID/Mexico.

A. Background

Since the installation of the new Mexican Administration, President Vicente Fox has placed significant emphasis on the development of microenterprises and has encouraged the expansion of the social banking sector. Recognizing the importance of social banking to the Fox administration, in May 2001 the Mexican government passed the Popular Savings and Credit Law to regulate deposit-taking financial intermediaries that serve middle and low income clientele. The law requires more than 650 deposit-taking financial institutions to transform into one of two legal structures, either popular savings and credit corporations or savings and credit cooperatives, which will be regulated by the Comision Nacional de Banca y Valores (CNBV). Chemonics and Supervisora ProDesarrollo (SPD) – a federation of microfinance institutions (MFIs) – were instrumental in influencing the new law, secondary legislation, and recent modifications to the law to incorporate language reflecting the unique aspects of microfinance. In general, it is expected the law will have a positive impact on the sector.

The USAID/Mexico Microenterprise Strategy was designed prior to these developments and, therefore did not anticipate that the project would play such a significant role in influencing the legislation and regulations governing the social banking sector. Recognizing these favorable developments, USAID/Mexico amended the Chemonics contract twice to provide additional

funding to monitor the Development Credit Authority (DCA) guarantees, advise on legislation and policy formulation, and to provide additional long and short term technical assistance to strengthen partner MFIs while concurrently achieving the project's original objectives. As the project moves into the final year of implementation the team will work to expand the positive impact made during the first two years to other MFIs and Mexican support organizations.

B. Accomplishments of Year Two

During the second year of implementation, the Chemonics team achieved the following major accomplishments:

- Contributed to the modification of the Popular Savings and Credit Law to balance the law more equitably between the unique needs of cooperatives and MFIs;
- Contributed to the revision of the secondary and prudential regulations, incorporating unique aspects of microfinance transactions and MFI governance;
- Successfully monitored the DCA guarantees which contributed to the achievement of operational targets for USAID's investment in one of the MFIs;
- Influenced an increase of the savings capacity of Unión Progreso's Savings Center resulting in an increase by more than five times the DCA guarantee amount in fixed term deposits;
- Supported the organization and operation of Supervisoría ProDesarrollo as an interim step to form a licensed supervision federation (Federación de Sociedades Financieras Populares);
- Strengthened the operational and management capabilities of partner MFIs to ensure compliance with the new legislation; supported the transformation process;
- Organized observational tours to Costa Rica, Colombia and Brazil to observe supervision and microfinance best practices resulting in an increased awareness by the CNBV, other GOM Secretaries, SPD and MFIs of the unique nature of MFIs and the regulation necessary to oversee their operations
- Provided 100 partial scholarships to 48 ProDesarrollo members to improve capacity to provide financial services to microentrepreneurs.

C. The Year Ahead

During the final 14 months of the project Chemonics will look to build upon the strong foundation created during 2001 and 2002. Major activities during this next period will work to apply the best practices developed for microenterprise growth in Mexico and to capture and disseminate the lessons learned. To achieve these objectives, and based on the results of the MFI diagnostic undertaken earlier in the year, the Chemonics team will work with an expanded number of MFI partners, as well as with ME support organizations, the CNBV, government officials and universities. This collaborative implementation approach – which has been a hallmark of the project to date – will continue to be essential for project success.

During 2003-2004 we will look to achieve the following major results:

- Assist the CNBV to develop a microfinance supervision methodology and to adjust the secondary regulation accordingly;
- Analyze and adjust the secondary legislation to incorporate the unique nature of microfinance transactions, governance and risk;
- Continue monitoring the DCA agreements to ensure a successful return on USAID's investment;
- Develop policies and procedures manuals and software tools to strengthen operational and management capacity of selected MFIs and facilitate their compliance with regulatory requirements for institutional transformation;
- Support SPD to obtain its operational license as a supervisory federation;
- Train an expanded number of MFIs on best practices in governance, credit, and human resources developed during the first two years;
- Support additional MFIs in the identification and resolution of key bottlenecks to growth and sustainability;
- Provide the basis for strong growth to promising new MFIs through direct technical assistance and training;
- Conclude the study on ME needs and priorities and on the relationship between ME and migration; disseminate results widely among key GOM officials, donors and practitioners.
- Prepare a guide on the lessons learned and best practices in forming a supervisory federation of MFIs under the Popular Savings and Credit Law;
- Disseminate Mexican success stories at conferences and workshops, as well as through popular microfinance and development websites.

II. The Work Plan for 2003 and 2004

The work plan for years 2003 and 2004 for the Implementation of USAID/Mexico Microenterprise Strategy project is organized in accordance with the results framework (Annex A), presenting the project's strategic objective, describing the results necessary to achieve that objective, and identifying the activities required to produce those results. Since, in most cases, the second year results and activities are closely tied to last year's achievements, a review of the progress under each objective is woven into the discussion.

The strategic objective for the project is to strengthen the institutional base for sustainable microenterprise growth by supporting Mexican initiatives. The project has advanced significantly to achieve this objective and will concentrate over this final stage to not only strengthen but expand the institutional base for sustainable microenterprise growth. This means we will provide technical assistance and training to new partner MFIs and also make a concerted effort to disseminate our best practices, tools, methodologies and templates to a greater number of stakeholders. Annex B contains an illustrative table indicating how the LOE would be applied to individual technical activities.

A. Intermediate Result 1 – Improving Capacity

As defined in the strategy, the objective of intermediate result 1 is to “increase communication and collaboration among microenterprise finance and other service providers to define constraints to microenterprise growth ; improve institutional capacity of Mexican organizations that support microenterprise development; and organize Mexican initiatives.”

A1. End of Project Anticipated Results

By the end of the project, in June 2004, it is expected the following results to improve capacity will have been achieved:

- objectives for strengthening the institutional foundations for microenterprise will be defined by local counterparts;
- activities for developing human capacity will be developed; and
- a legal framework to strengthen and expand established MFIs will be developed.

A2. Activities, Rationale and Impacts

Strengthening Institutional Foundations. During the next year the project will continue to support ProDesarrollo, the only private microfinance network in Mexico. Limited funds and technical assistance will be provided to ProDesarrollo to conduct technical workshops and manage scholarships under the project. Project staff will continue to attend board meetings and working breakfasts to maintain open channels of communications for future technical interventions. To continue to strengthen the institutional foundations for microenterprise and Mexican support organizations, the project will provide limited technical assistance to ProDesarrollo's board of directors to engage them in setting the agenda for microenterprise policy in the coming years. To compliment the work of the board to support Mexican initiatives,

the project will encourage key leaders of our partner MFIs to offer guidance and direction to ProDesarrollo in an informal way.

Improving human capacity. The project has invested significant resources to improve human capacity to support microenterprise growth. Four workshops trained more than 200 participants on key issues constraining microenterprise growth. Topics included: rural savings, supervision and business planning. In the coming year, ProDesarrollo with project resources, will develop and deliver one additional training workshop to carry out a two-week Boulder-type training session for microfinance practitioners. The workshop, which is still in the proposal development stage, will help ProDesarrollo gain experience organizing high caliber regional workshops and will also prepare the institution to become a specialized microfinance training organization. The project will offer ProDesarrollo limited technical assistance to review and approve the proposal. The project will participate in the training session and supervise its implementation. Administrative support will also be provided to sign a subcontract and to review, approve and reimburse for expenses incurred.

Additionally, the project will continue to sponsor partial scholarships to apply microfinance best practices, internal control and supervision. According to a study sponsored by ProDesarrollo on the impact of the services being provided by the institutions, 79% of respondents regarded scholarships as being “very useful”, the highest percentage obtained among other services. Technical assistance will be provided to ProDesarrollo to help select training activities and participants. Administrative support will be provided to review and reimburse expense reports.

Improving Microfinance Legislation. During the past years the project has provided significant technical assistance to support drafting of the legislation. This presented a unique opportunity for the project, providing the chance to shape ME finance policy much more directly than had been anticipated under the original strategy. The project undertook a longitudinal study of the Popular Savings and Credit Law to detect the contradictions, inconsistencies, duplications and awkward organization of the draft law. An assessment to determine whether all the articles were in agreement was also undertaken. The findings were presented and discussed with GOM officials, ProDesarrollo and Congress members. As a result, many of the deficiencies were corrected and the law was considerably strengthened. For example:

- the minimum stock ownership levels for individual and institutional stockholders was raised from 3% and 10%, respectively, to 30% for any type of investor with CNBV approval required for greater levels
- federations and confederations may now appoint independent board members
- the scope of services to be offered by regulated MFIs was expanded to include services such as payment services and issuing subordinate stock.

A report on the modifications to the Popular Savings and Credit Law passed earlier this year was also prepared to identify the major improvements and weaknesses approved. In general, it was concluded that the modifications strengthen the legislation and will have a positive impact on the sector, although they did not correct all of the major weaknesses such as conflict of interest and management of confidential information. During the coming months, as requested the project

will continue to provide input and feedback to the CNBV to correct deficiencies and weakness in the law. Limited technical assistance will be provided to help disseminate the benefits of the law.

Developing prudential (secondary) regulations. Over the past years the project has reviewed and commented on the draft secondary regulations. Particularly important was the direct request received from the CNBV during the first quarter of 2003, to comment on a draft of the secondary regulation related to conflicts of interests and management of confidential information. Comments were prepared and discussed with the CNBV and as a result the CNBV is now considering introducing a changes into the draft regulation. Over the next year, the project will assist the CNBV to develop a chapter for the Integrated Supervision Manual related to supervision of microfinance institutions. It is expected that the project will provide short term technical assistance to incorporate these changes into the regulations.

Working with the CNBV to develop an integrated supervision manual will have an extremely important impact on the microfinance sector. As is, the legislation, draft prudential regulation, and the supervision and authorization guides are too cooperative oriented which leaves the microfinance sector with regulations sometimes meaningless to their institutions and difficult or impossible to apply. The recommendations for changes in the legislation and regulations will allow microfinance institutions, as well as cooperatives, to grow and flourish as new popular savings and credit institutions resulting in more regulated deposit-taking institutions serving greater numbers of microentrepreneurs with appropriate products and services.

After the process is finalized, the project will prepare a report analyzing and evaluating the secondary regulation. This report will be widely distributed among partners and the GOM.

B. Intermediate Result 2 – Strengthening Industry and Institutions

As defined in the strategy, the objective of intermediate result 1 is “strengthen the operational sustainability and management ability of selected MFIs, and improve credit and financial services to microenterprises.”

B1. End of Project Anticipated Results

By the end of the project, in June 2004, it is expected that following results to improve capacity will have been achieved:

- feasibility of creating a new credit bureau to serve the specialized needs of MFIs determined;
- sustainable source(s) of capital for microenterprises accessed;
- MFIs’ institutional capacity to increase microenterprise access to credit and financial services strengthened;
- a federation specializing in the supervision of social banking institutions created; and
- organizational structures, policies, and procedures of partner MFIs developed to ensure compliance with the new legislation.

B2. Activities, Rationale and Impacts

B2a. Creating a new Credit Bureau

Mexican partners strongly support participation in a credit bureau. ProDesarrollo conducted a study and is now working to apply the results. Due to the intensive need of resources and time constraints in setting up a new credit bureau, during this final year the project will only work with partner MFIs to explore the possibility of linking their institutions to an existing credit bureau.

B2b. Improving Access to Capital

DCA Program: The Development Credit Authority programs financed by the mission and monitored by the project continue to yield favorable results, with the exception of a delinquency problem at Union Progreso's Savings Center. Union Progreso has already achieved all of their operational targets – including a five fold increase in savings – and Fincomún is on track to meet their targets by the end of the guarantee period. It is expected that both of the institutions will mobilize enough deposits to eventually replace the need for capital currently being satisfied by the DCA guarantees. The guarantees expire in March and June of 2004.

To assure compliance with the terms of the guarantees and to provide very limited credit technical assistance, the project will continue to monitor the guarantees on a quarterly basis. At the end of the guarantee period the project will write a report analyzing the positive and negative aspects of using DCA guarantees for microfinance, which was a first in Mexico and among one of the first experiments with DCA to be used for microfinance anywhere.

B2c. Strengthening MFI Operations

During the past year the project has worked steadfastly to assist partner MFIs, primarily Union Progreso's Savings Center and Fincomum, to overcome the internal management deficiencies that impeded their growth and service to microentrepreneurs. This included assistance in developing business plans, tools and training to improve products and services, and on-the-job management support. Over the past year, accomplishments have been made and both of the institutions have become strengthened in the process.

Looking forward to the last year of the project, and wanting to ensure that the project's resources are allocated to those MFIs which have the most potential to achieve the objectives of the project and USAID/Mexico's Microenterprise Strategy, the project executed a limited diagnostic on a group of MFIs. The group was selected based on prior contact with the project and market intelligence collected by the project via contacts with Pronafim, Bansefi, and ProDesarrollo. Formal financial institutions with microfinance programs, regulated MFIs, and NGOs were included in order to examine the potential for successful microfinance models in Mexico. A list of the institutions invited to submit information for the diagnostic is attached as Annex C.

Institutions which expressed interest in working with the project were evaluated utilizing the following criteria:

- Commitment to the target market as defined by the project and USAID
- Intent to create a regulated financial intermediary
- Interest in receiving technical assistance from project
- Potential to achieve scale
- Willingness to receive, discuss and implement technical assistance and training on best practices as agreed with project
- Ability and willingness to send quarterly performance information
- Progress in operational sustainability as determined by business plans accepted by project
- Progress in financial sustainability as determined by business plans accepted by project
- Portfolio at risk $\leq 8\%$ plus willingness to implement best practices
- If portfolio at risk above 8%, willingness to implement best practices to reduce it to below 8% within time frame agreed by project and USAID
- Open to implementing good governance practices, to reducing and controlling conflicts of interests
- Willingness to agree, sign and implement an agreement detailing obligations on both parties

The following chart summarizes the results of the diagnostic.

	Amextra	ADMIC	FINCA	CAME	ProMuje r	Progres o	Fincomú n	FIMEDER	Compar- tamos
<u>Commitment to target market</u>									
Proxy: average loan size USD	\$ 356	\$ 468	\$ 176	\$ 138	\$ 86	\$ 1,828	\$ 515	\$ 735	\$ 241
Proxy: average savings USD	\$ 74	#N/A	\$ 38	\$ 317	#N/A	\$ 181	\$ 493	#N/A	#N/A
Interest in receiving technical assistance	Y	Y	Y	Y	Y	Y	Y	Y	Y
<u>Potential to achieve scale</u>									
Proxy: total credit clients	855	6,629	10,801	37,545	2,567	1,929	10,367	47	144,991
Proxy: growth in credit clients	-17%	30%	5%	50%	#N/A	35%	106%	1700%	56%
Proxy: Loan	3	32	20	54	2	37	58	0.4	450

	Amextra	ADMIC	FINCA	CAME	ProMujer	Progreso	Fincomún	FIMEDER	Compartamos
Portfolio (millions of Mexican Pesos)									
Proxy: growth in loan portfolio	-11%	106%	14%	36%	#N/A	73%	85%	1943%	93%
Financial Sustainability > 100%	N	N	Y	Y	N	N	Y	N	Y
Portfolio at risk (PAR)	43.14%	5.13%	3.30%	11.60%	0.00%	13.09%	6.13%	0.00%	0.70%
Creating Regulated Institution	Medium term	Maybe	Medium term	Maybe	Maybe	Y	Y	Y	Regulated

The results of the diagnostic were discussed with USAID/Mexico and based on the conclusions drawn in that meeting, the project is proposing the following activities to strengthen MFIs during the final year of the project.

A2. Activities, Rationale and Impacts

During the diagnostic process, the project identified technical assistance activities of interest to the MFIs and proposed additional activities critical to strengthening the operational sustainability and management ability of MFIs. It is anticipated that the activities will be further refined as project personnel gain additional information regarding the operations of the MFIs, with a view to concentrating the project's efforts on those activities which will have the greatest impact on the provision of financial services to Mexican microentrepreneurs. The selected institutions and preliminary technical assistance activities are described herein, ranked in order of priority.

Compartamos. Compartamos is the leader of microfinance in Mexico and one of the most successful MFIs in the region. The project proposes three activities which will complement technical assistance funded by USAID/Washington and will contribute to the objectives of USAID/Mexico's Microenterprise Strategy. The first activity, subject USAID's decision to invest in a DCA guarantee for Compartamos, will be to facilitate the process for a DCA guarantee to a second Medium Term Note program to be issued on the Mexican stock exchange. By getting a better credit rating with the DCA guarantee, Compartamos will be able to access Mexican institutional investors, which will serve as a deep and stable funding source for the future growth of Compartamos. In addition to funding the provision of credit to additional microentrepreneurs, this capital markets transaction will pave the way for other Mexican MFIs to access the capital markets. The second proposed activity is a governance workshop to strengthen the functioning of Compartamos' board, providing an improved institutional foundation for growth. A focus by Compartamos on governance will have a positive influence on other Mexican MFIs which the project seeks to support in improving governance in the industry. The

third proposed activity is to help Compartamos develop strategic alliances with other financial services intermediaries. Strategic alliances will help Compartamos expand outreach by providing additional financial services through their existing infrastructure. The project proposes to support Compartamos in the negotiation of these alliances, strengthening the potential of the alliances and helping to ensure their focus on Compartamos' target market.

The impact of these activities will be strengthened management, increased sustainability, a greater number of microentrepreneurs served, and incremental financial services provided to clients of Compartamos. In addition, activities with Compartamos will have a positive demonstration effect on other Mexican MFIs.

FIMEDER. FIMEDER is a new MFI created by the prestigious Fundacion Mexicana para el Desarrollo Rural, which has a 40-year history of supporting marginalized Mexican rural populations. FIMEDER will begin operations as a regulated MFI serving rural and urban populations and has ambitious growth targets. The depth of FIMEDER's management team, management's emphasis on transparency and best practices, and the priority placed by its board of directors and management on establishing effective governance from the creation of the institution are critical success factors for MFIs present in FIMEDER.

FIMEDER represents an opportunity for USAID/Mexico to participate in the success of a nationwide, profitable and regulated MFI from the commencement of its operations. We propose to allocate a significant amount of level of effort to improve the productivity and efficiency of FIMEDER's operations, its growth strategy, and product offering. The project will further refine the specific technical assistance activities to be provided to FIMEDER following a more detailed on-site assessment of its operations to date. Technical assistance will have a high impact on FIMEDER's growth, scale, and management. In addition, technical assistance will contribute to offering of new products and services, including savings services, to rural and urban microentrepreneurs.

FINCOMUN. Fincomún is an important player in the Mexican microfinance market, and the project will continue to support it with modest assistance during this year. Proposed activities include a governance workshop to improve the functioning of its board; and assistance in evaluating, selecting and implementing a Customer Relationship Management (CRM) system. CRM integrates business processes, customer intelligence, and policies to enable financial institutions to view each client in terms of the client's assets, products, history, and relationships with other clients. Unlike traditional product-focused systems, this tool permits financial institutions to identify high-value customers and develop action plans to improve customer service and cross sell other products. The CRM will provide the organization with the tools necessary to maximize the profitability of its client base, strengthening the institution's sustainability. In addition, a CRM system will facilitate the development of additional products and services, increasing Fincomún's client base.

CAME. CAME is the second largest MFI in Mexico and an important participant in the development of Mexican microfinance policy. At the request of CAME management, the project proposes to perform an operational diagnostic and make specific recommendations for improvements in CAME's operations. This activity, will contribute to strengthening its

operations by identifying areas for improvement. If additional LOE becomes available, the project may provide technical assistance to support CAME in implementing changes recommended by the diagnostic. In addition, the diagnostic is an opportunity for USAID/Mexico to build a relationship with CAME, and serves as a means of obtaining additional information about to identify organizational weaknesses which may be important to USAID in the future.

FINCA. FINCA Mexico is the third largest Mexican MFI in number of clients and has one of the smallest loan sizes (US\$176) of any MFI. FINCA Mexico will be one of the first FINCA operations in Latin America to undergo institutional transformation to a regulated entity. FINCA's new management team has requested an institutional assessment and has expressed commitment to implement the recommendations of the assessment. This assessment, which will take a minimal level of effort, will have a positive impact on FINCA's operations and growth by identifying areas for improvement. By involving FINCA personnel in preparation of the assessment and presentation of the results, the technical assistance will contribute to the training of FINCA staff.

ProMujer. ProMujer is a new MFI which has achieved an impressive number of clients in one year of operations. ProMujer has ambitious growth plans which do not necessarily include transformation to a regulated institution. Management has requested technical assistance to select and implement a new management information system which would support ProMujer's growth, internal controls, and sustainability. At this time the project's current resource allocation precludes providing this technical assistance, which would have an estimate level of effort of at least 50 days. If additional resources become available the project proposes to deliver this technical assistance which will help to improve efficiency, productivity and long-term sustainability.

Union de Credito Progreso. The Union Progreso Group is an example of a broad community development strategy. Financial services to the ME sector include microenterprise loans, savings, remittances, pawn lending, insurance, foreign exchange and payment services. The project will continue to provide technical assistance to the Savings Center of Union de Crédito Progreso in the preparation of its written business plan, five year financial projections, and other documents which will comprise Progreso's application to create a Sociedad Financiera Popular. Technical assistance will include advising Progreso on policies related to microfinance best practices, including loan loss provisions, performance compensation, asset-liability management, capitalization, and business activities regulated by the LACP and its prudential regulations.

MFI Training Customized Microfin Model. The project has created a version of the Microfin MFI projections model which incorporates the ratios required by the CNBV in order for the Supervision Committee of Supervisoría ProDessarrollo to evaluate the applications of MFIs. The model automates, to the extent possible, the calculations of ratios and projected financial information. This new version of Microfin will enable the MFIs to submit the required information more easily and accurately, and will also facilitate the analysis which the supervision committee must perform for each SFP which submits an application. The project will conduct training events to teach the MFIs in transformation, as well as the supervision committee, how to use the new model. This activity requires just two days level of effort.

B2d. Creating a Federation specializing in the supervision of Popular Financial Societies.

The Popular Savings and Credit Law calls for the development of several federations, which are autonomous supervisory bodies that will supervise clusters of financial institutions throughout Mexico. Microfinance second-tier supervision federations are new in Mexico, and there is very limited local knowledge of the necessary steps to organize and operate them. When they become licensed to operate, which is expected sometime during early-mid 2003, the federations will represent the first of their kind not only in México but in other parts of the world.

With project assistance several activities have been accomplished, including the organization and operation of committees and the development of a business plan. As a result, an interim federation – Supervisoría ProDesarrollo – has been legally organized as a civil association and is in the process of obtaining authorization from the CNBV to start operations. Training and certification of the Supervision Committee will be carried out by Desjardins under a contract with Bansefi.

During this year the project will continue to provide assistance to develop operational manuals for the federation, support Supervisoría's completion of the documentation necessary to become licensed, and support the board of administration to understand key legal and governance issues. The project will review bylaws, help to develop the procedures to select board members and attend board meetings. Furthermore, the project intends to provide financing to support the acquisition of a CAMEL-type supervision and management tool, the acquisition of a management information system for financial societies and/or the development of a knowledge web page. Final decision as to which project to finance will depend upon SPD presenting one or more proposals and the availability of funding.

In addition to assisting the Supervisoría ProDesarrollo federation, the project intends to leverage its investment made to develop the operational manuals by sharing these manuals with other federations that are also organizing under the law. Through workshops and websites the project will disseminate these manuals, as well as other useful lessons learned, to a broad segment of the microfinance sector.

Manuals. The project will provide short term technical assistance to develop operational manuals to be used mainly by institutions that are in the process of being transformed into regulated institutions. The manuals will be also made available to other members of ProDesarrollo, microfinance and credit cooperative institutions. Strategic alliances will be sought with other supervisory federations and/or GOM support organizations to make the manuals widely known and accepted.

The manuals to be developed and or adjusted to the new legal and supervision environment are:

- Sight Savings and Fixed Term Deposits
- Credit Operations
- Human Resources
- Risk Management
- Information Technology

- Ethics Code
- Structure and Organization

C. Intermediate Result 3 – Increasing Understanding

As defined in our contract, the objective of intermediate result 1 is to “increase the understanding and appreciation of the role of microenterprise in the Mexican economy; evaluate the needs of microentrepreneurs and their influence on decision-making.”

C1. End of Project Anticipated Results

By the end of the project, in June 2004, it is expected that following results to increase understanding of microenterprise will have been achieved:

- a study of the potential ME contribution to the national economy;
- a study of microenterprise needs and priorities (above subsistence level) completed; and
- the relationship between microenterprise and the perceived need to migrate analyzed.

C2. Activities, Rationale and Impacts

Study of actual and potential ME contribution to Mexico’s economy. Under subcontract by the project the IberoAmericana University and the Colegio de la Frontera Norte (COLEF) finished the study that documents the contribution of microenterprise to the Mexican economy. The study was published and distributed, and two articles were printed related to the study results. The study was presented to the academic community and to ProDesarrollo, as well as to the international community, donors, and to government officials. Discussions with key GOM, practitioners, other donors and decision makers were conducted. The evidence gathered under the study suggested among other things, the great importance of microenterprises in the Mexican Economy. The sector concentrates more than 90% of enterprises and between 60% and 70% of the employment, this represents about 25 million people or 25% of the Mexican Population.

Study of microenterprise needs and priorities (above subsistence level) and relationship between ME and migration in areas of high migration. These two studies were integrated into one and COLEF and the Iberoamericana University are carrying them out under a subcontract with the project. The studies will be ready by the third quarter of 2003. Assuming their findings are relevant and compelling, the studies will be widely disseminated and discussed with the GOM, USAID and other international donors.

III. Other Areas of Support

Throughout the remainder of the contract Chemonics will continue to provide quarterly updates on the progress of the project, and also meet regularly with the CTO to discuss project accomplishments and obstacles. The project chief of party, Mr. Miguel Angel Rivarola, will continue to administer the project and maintain the documentation required by USAID. As the project nears its conclusion Mr. Rivarola will oversee the close out the office, including the disposition and/or transference of furniture and equipment acquired under the project to USAID’s designated beneficiary(ies).

Additionally, Chemonics will continue to provide technical assistance to the mission on a regular basis. In this capacity, the COP will continue to advise on specific issues in ME finance and provide guidance how the mission can most effectively apply ME best practices. He will also continue to assist in reviewing mission reports and proposals and to conduct presentations to government ministries as requested by USAID/Mexico. Since the technical assistance is provided on an “as requested” basis, no deliverables can be assigned to this objective.